

## Message Text

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73

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-07 INR-07 LAB-04

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 1086

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E.O. 11652: N/A

TAGS: ELAB PINT EFIN CI

SUBJECT: REAL WAGES

REF: A) SANTIAGO 7617; B) IBRD REPORT NO. 966-CH. "ECONOMIC  
MEMORANDUM ON CHILE," DECEMBER 24, 1975

1. INTRODUCTION AND SUMMARY: REF A REPORTED THAT DEMOCRATIC TRADE  
UNIONS DIRECTED LETTERS TO THE MINISTRY OF LABOR CRITICIZING GOC  
LABOR POLICIES, AND SAYING THAT CHILEAN WORKS HAD SUFFERED A  
DRAMATIC DECLINE IN REAL WAGES. REAL WAGES, ACCORDING TO THE LETTERS,  
HAD DECLINED 55 PERCENT SINCE JANUARY 1973. THIS TELEGRAM QUALIFIES  
THAT STATMENT BY NOTING THAT IF PARALLEL MARKET PRICES ARE TAKEN  
INTO CONSIDERATION, REAL WAGES TODAY ARE ROUGHLY THE SAME AS THEY  
WERE IN JANUARY 1973 FOR MANY THROUGH PERHAPS NOT MOST CHILEANS.  
END INTRODUCTION AND SUMMARY.

2. CALCULATIONS OF REAL WAGES DEPEND, IN THE FIRST INSTANCE, ON  
HOW PRICE LEVELS ARE COMPILED. DURING THE ALLENDE PERIOD, 1971-73,  
THERE WERE, EFFECTIVELY, TWO LEVELS. THOSE WORKERS WHO SUPPORTED  
THE REGIME HAD THE BENEFIT OF SUBSIDIZED OFFICIAL PRICES. OTHERS,  
INCLUDING THE MIDDLE CLASS OPPOSITION, BOUGHT INCREASINGLY IN THE  
PARALLEL MARKET (THE "BLACK MARKET"), WHICH, BY THE MIDDLE OF 1973,  
HANDLED A VERY LARGE PORTION OF FINAL CONSUMER TRANSACTIONS.

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3. THE OFFICIAL GPI FOR THE PERIOD 1971-73 WAS DISTORTED BY THE

SUBSIDY ELEMENT IN THE OFFICIAL PRICES. ACCORDINGLY, THE IBRD CALCULATED ITS OWN GPI FOR CHILE FOR 1971-73, USING ACTUAL PRICES INCLUDING THOSE OF PARALLEL MARKETS. THIS STUDY RELIED ON CONTEMPORARY MARKET BASKET SURVEYS BY THE UNIVERSITY OF CHILE.

4. IN ORDER TO CALCULATE REAL WAGES, THE NOMINAL WAGES OF THE INDEX OF SALARIES AND WAGES (ISW) ARE DIVIDED BY THE PRICES THAT WAGE EARNERS HAVE TO PAY, AS EVIDENCED BY THE CPI. DIVIDING THE ISW BY THE OFFICIAL CPI THAT EMBODIED SUBSIDIZED PRICES YIELDS HIGHER REAL WAGES FOR JANUARY 1973, AND A DRAMATIC DROP BY APRIL 1976, WHEN EVERYONE WAS PAYING MARKET PRICES. BY THIS METHOD, THE DROP IN REAL WAGES CALCULATES TO 45 PERCENT (NOT 55 PERCENT AS CALCULATED BY THE UNIONISTS). IF, HOWEVER, WE USE THE IBRD CPI, WE ARRIVE AT CONSIDERABLY LOWER REAL WAGES FOR JANUARY 1973, SUCH THAT REAL WAGES APPEAR TO HAVE BEEN AT ABOUT THE SAME LEVEL IN JANUARY 1973 AND IN APRIL 1976.

5. THUS, THE EXTENT OF THE DROP IN REAL WAGES SINCE JANUARY 1973 DEPENDS ON WHETHER ONE IS TALKING ABOUT THE GROUP, ESTIMATED AT 60 PERCENT OF THE WORKFORCE, THAT ONCE HAD THE BENEFIT OF SUBSIDIZED PRICES, OR THE REMAINDER THAT DID NOT.

6. THE UNIONISTS ALSO CONTENDED THAT FOOD PRICES HAD RISEN AS MUCH AS TWICE THAT OF THE OVERALL CPI DURING THE PERIOD 1973 TO PRESENT. SOME INDIVIDUAL FOODS HAVE INCREASED IN PRICE AT DOUBLE THE CPI. EVEN USING OFFICIAL FIGURES, HOWEVER, IT IS CLEAR THAT ALTHOUGH OVERALL FOOD PRICES HAVE RISEN SHARPLY, THEY HAVE NOT RISEN AS RAPIDLY AS THE CPI.

7. STATISTICAL DISTINCTIONS ASIDE, CHILEAN WORKERS TODAY PERCEIVE THEMSELVES TO BE WORSE OFF THAN THEY WERE IN JANUARY 1973.  
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